

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-02 PA-02 PRS-01 USIA-15 SAM-01 /109 W

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R 110750Z APR 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9336

INFO AMEMBASSY BONN

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS TOKYO 4744

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: BOJ TO CUT DISCOUNT RATE NEXT WEEK

1. IN JAPAN, WHERE SURPRISES ARE NOT WELCOME, PROSPECTIVE REDUCTION IN BOJ DISCOUNT RATE HAS BEEN TOPIC OF GENERAL DISCUSSION FOR MANY WEEKS. PRIVATE OPINION IS NOW VIRTUALLY UNANIMOUS THAT BY END OF NEXT WEEK (APRIL 19) BOJ WILL CUT DISCOUNT RATE BY 0.5 PERCENT TO 8.5 PERCENT. THIS MAY BE FOLLOWED BY ANOTHER 0.5 PERCENT CUT A FEW MONTHS HENCE.

2. PRESS REPORTS THAT EVEN BOJ GOV MORINAGA HINTS THE DISCOUNT RATE WILL BE LOWERED BEFORE APRIL 23. HE IS TO MEET MINISTERS FUKUDA AND OHIRA BEFORE END OF THIS WEEK TO SEEK THEIR CONCURRENCE, AND WITH THE BOJ POLICY BOARD ON APRIL 15 (PRESJMABLY TO GET ITS APPROVAL OF THE RATE UNCLASSIFIED

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CUT).

3. GENERAL OPINION AMONG BANKERS IS THAT DISCOUNT RATE CUT WILL REDUCE SHORT-TERM INTEREST RATES (CALL MONEY AND BILL DISCOUNT RATE ARE CURRENTLY 12.25 PERCENT AND 13.25 PERCENT, RESPECTIVELY) XT THAT LONG-TERM RATES (CURRENTLY 9.4 PERCENT ON BANK LOANS) WILL REMAIN RELATIVELY UNAFFECTED. ONE OF THE REASONS CITED IS THAT THE PUBLIC IS DEMANDING HIGHER INTEREST RATES ON SAVINGS DEPOSITS (CURRENTLY 8 PERCENT FOR TWO-YEAR TIME DEPOSITS) TO OFF-SET THE RATE OF INFLATION (CPI IS UP 14 PERCENT OVER LAST MARCH). CONSEQUENTLY, IT S ARGUED, MOF WILL BE RELUCTANT TO ANNOUNCE REDUCTIONS IN DEPOSIT RATES (LAST INCREASE REPORTED TOKYO - 666, 10/25/74) AND BANKS WILL NOT REDUCE THEIR LENDING RATES VERY MUCH. EVIDENTLY EASING OF CREDIT DEMAND AND SOMEWHAT GREATER AVAILABILITY ARE EXPECTED TO HAVE LITTLE IF ANY INFLUENCE OF "MARKET RATES" IN JAPAN.

4. ECONOMIC IMPACT OF DISCOUNT RATE CUT EXPECTED TO BE MINIMAL. THERE IS GENERAL AGREEMENT THAT BUSINESS INVESTMENT (LATEST GLOOMY JDB SURVEY REPORTED TOKYO A-172) WILL NOT BE STIMULATED BY DISCOUNT RATE CUT NOR WILL IT ENCOURAGE CONSUMERS TO SPEND MORE AND SAVE LESS. NEVERTHE LESS, RATE REDUCTION IS HERALDED AS HAVING IMPORTANT FAVORABLE "PSYCHOLOGICAL EFFECTS" ON PRESENT DEPRESSED STATE OF JAPANESE ECONOMY.
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Message Attributes

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Margaret P. Grafeld
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05 JUL 2006

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